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RELEASED IN PART  
B1, 1.4(D)

Brian R Naranjo 12/07/2001 09:27:30 AM From DB/inbox: Brian R Naranjo

Cable Text:  
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TELEGRAM

December 07, 2001

*Chron*

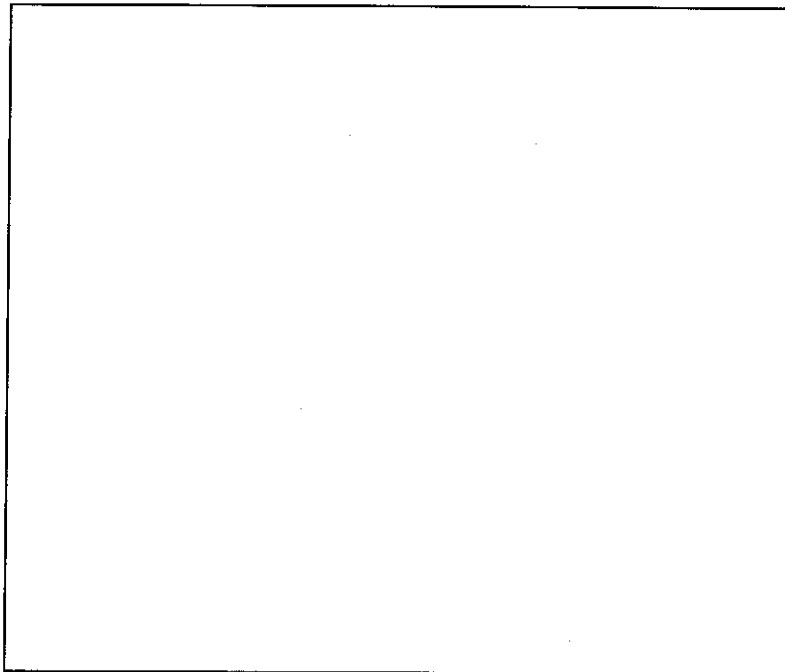
To: SECSTATE WASHDC - ROUTINE  
Action: WHA  
From: AMEMBASSY CARACAS (CARACAS 3581 - ROUTINE)  
TAGS: ECON, EFIN, EIND, EPET, PGOV, PINR, VR  
Captions: None  
Subject: THE SHUTDOWN - ECONOMIC FACTORS  
Ref: A. CARACAS 03517 B. CARACAS 03516

1. (U) Classified by Charge Frederick B. Cook by reason 1.5(B).

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Summary  
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2. (SBU) While the majority of business sector representatives do not believe they will suffer significantly from the general strike planned for December 10, several economists fear an intransigent President Chavez will force a rolling series of demonstrations and work stoppages that would stall an already weakening economy. Increasing political unrest and an expanding fiscal deficit are also placing renewed pressure on the currency - a core macroeconomic indicator for the Chavez administration. End Summary.

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"We seek not a clash in the streets, but a clash of ideas."  
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4. (SBU) Discussions at the numerous business receptions

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held this time of year in Caracas reveal an almost euphoric sense that an opposition has finally coalesced. Several persons have noted the irony that one of the foundations of Chavez's power, the Enabling Law, which gave the President sweeping authority to issue laws by decree, was the spark that ignited this serious challenge to his government. A second prevailing sentiment is that neither side is in a mood to compromise because the stakes are too high and the basic positions too far apart. Many remark with relish on the President's uncanny ability to unite both labor (CTV) and management (FEDECAMARAS) against him.

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Economic implications  
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5. (SBU) The strike itself is not expected to cost the economy a great deal - estimates range from USD \$50-100 million in lost wages, disrupted travel, and lower holiday sales. FEDECAMARAS adeptly chose a Monday to minimize the impact; most consumer shopping is conducted on Saturday and Sunday, and production processes with long start-up/shutdown times (metallurgy, heavy manufacturing) will simply take a long weekend.

6. (SBU) In various meetings, private sector representatives and economists wonder who is minding the store while the government focuses on December 10. There have been numerous comments concerning the negative impact the increasing political unrest will have on the country's risk premium in capital markets. Reports have surfaced that the Ministry of Finance is planning a 200 million Eurobond offering next week in an attempt to finance the growing fiscal deficit. (Note: This issue should be a clear test of the market's appetite for Venezuelan

exposure. Even the state-owned oil company, PDVSA, which normally enjoys strong market acceptance, found it difficult to float a USD \$400 million debt issuance late last month.)

7. (U) There is also considerable criticism of President Chavez's recent authorization of a holiday bonus consisting of three-month pay for public sector employees. The business sector fears that not only does this action place an additional liability on an already burdened federal budget, but will eventually produce demands for higher pay in the private sector.

8. (SBU) Following a two-month period of relative stability, the country's exchange rate has again come under pressure. The Central Bank has expended approximately USD \$334 million in reserves over the past four trading sessions in an attempt to hold the Bolivar under its year-end goal of 750 Bs to the dollar.

Cook

Additional Addressees:  
None

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CC:  
AMEMBASSY LA PAZ  
AMEMBASSY BOGOTA  
AMEMBASSY LIMA  
AMEMBASSY QUITO

Distribution:

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ACTION WHA-00

INFO	LOG-00	NP-00	AID-00	ACQ-00	CEA-01	CIAE-00	COME-00
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	EB-00	EXIM-01	E-00	FAAE-00	FBIE-00	VC-00	FRB-00
	H-01	TEDE-00	INR-00	ITC-01	L-00	VCE-00	AC-01
	NSAR-00	NSCE-00	OES-01	OMB-01	OPIC-01	PA-00	PC-01
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	STR-00	TRSE-00	USIE-00	FMB-00	DSCC-00	DRL-02	G-00
	NPAT-00	SAS-00	SWCI-00	/011W			

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AMEMBASSY BOGOTA  
AMEMBASSY LIMA  
AMEMBASSY QUITO  
USCINCSO MIAMI FL//SCJ2, POLAD//

C O N F I D E N T I A L CARACAS 003581

E.O. 12958: (DECL: 1.5 B)  
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End Cable Text

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